



TRANSITION TOPIC:

DOD HEALTH BENEFITS FORECAST

TASK: Highlight the perilous growth in Defense healthcare spending and alert the Secretary to the urgency of gaining agreement from the Department's uniformed leadership to aggressively pursue savings in Defense healthcare spending.

TASK GROUP:

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Report Documentation Page			Form Approved OMB No. 0704-0188		
Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.					
1. REPORT DATE 23 OCT 2008		2. REPORT TYPE		3. DATES COVERED 00-00-2008 to 00-00-2008	
4. TITLE AND SUBTITLE DoD Health Benefits Forecast			5a. CONTRACT NUMBER		
			5b. GRANT NUMBER		
			5c. PROGRAM ELEMENT NUMBER		
6. AUTHOR(S)			5d. PROJECT NUMBER		
			5e. TASK NUMBER		
			5f. WORK UNIT NUMBER		
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) Defense Business Board, Secretary of Defense, Washington, DC			8. PERFORMING ORGANIZATION REPORT NUMBER		
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)			10. SPONSOR/MONITOR'S ACRONYM(S)		
			11. SPONSOR/MONITOR'S REPORT NUMBER(S)		
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT Same as Report (SAR)	18. NUMBER OF PAGES 14	19a. NAME OF RESPONSIBLE PERSON
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			



Defense Business Board

ISSUE:

- Defense healthcare costs are “eating up” the Defense budget and represent an existential threat to the Department
- Only the Secretary can lead the Department and its uniformed leadership (Service Chiefs and Chairman Joint Chiefs of Staff) to a solution

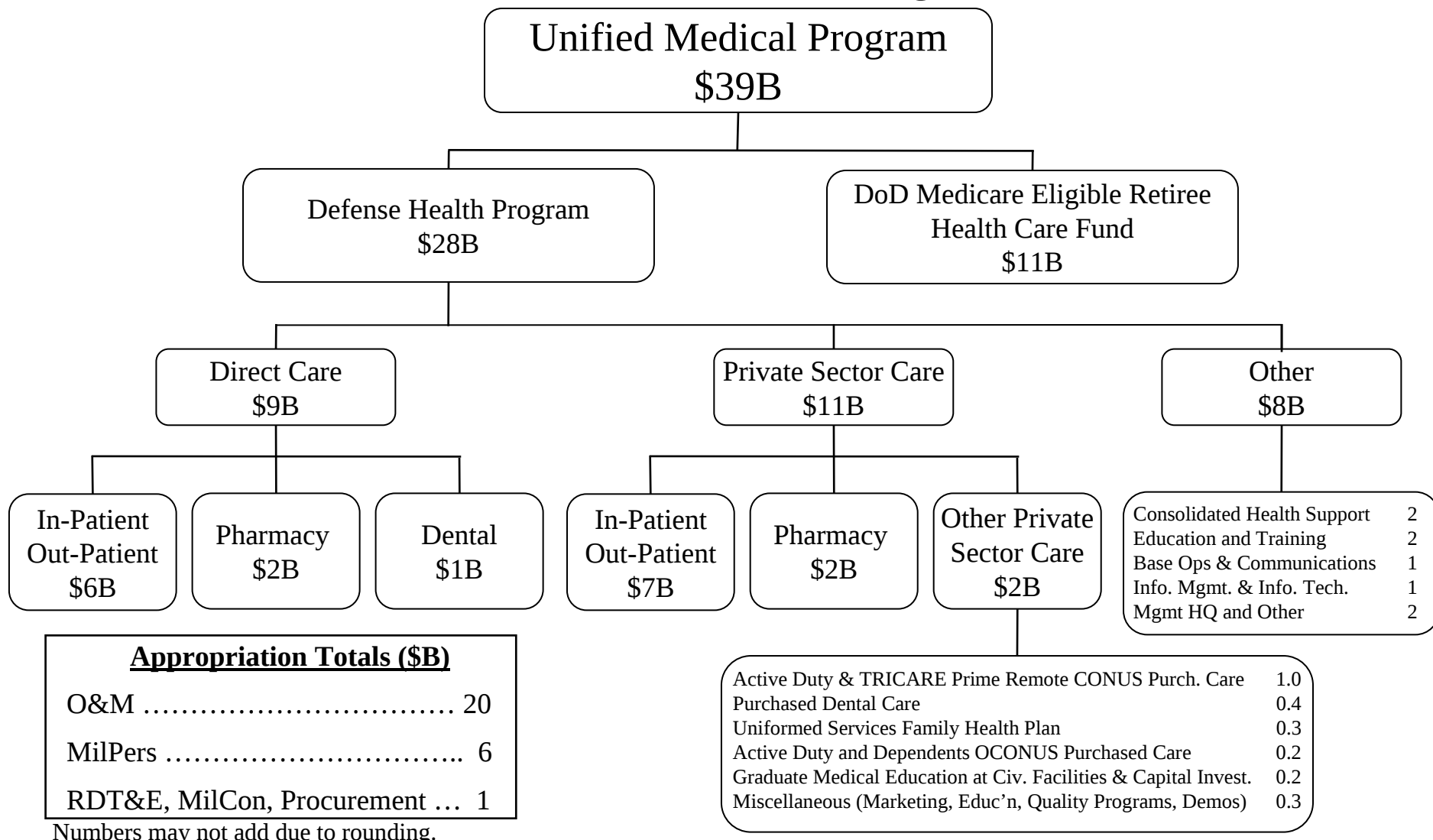
IMPORTANCE:

- Defense Health is a \$93 billion program – plus an additional \$488 billion in unfunded liability (FY 2007)
- Congressional mandates for increased healthcare benefits are likely to continue, which will force DoD to make tough funding trade-off decisions
- Overall Defense healthcare spending has grown \$25.1B billion from FY 2000 to FY 2008 (a 144% increase)
- Defense healthcare spending has grown faster than DoD discretionary spending since FY 2000
- Defense healthcare programs are facing an imminent head-on financial train wreck with other critical Defense acquisition and operational programs



Defense Business Board

FY07 Unified Medical Program



Numbers may not add due to rounding.

Source: PA&E

October 23, 2008



Defense Business Board

RECENT KEY BENEFIT LEGISLATION*

FY 2001 (annual cost \$492)*

- Co-payment elimination (\$220)
- Catastrophic cap reduction (\$91)
- TRICARE PRIME Remote ADFM (\$65)
- Medical/Dental benefit expansion (\$59)
- **Medical record privacy (\$30)**
- Custodial care (\$15)
- Chiropractic health care (\$12)

FY 2002 (annual cost \$4,969)*

- TRICARE for Life (\$4,903)
- NAS elimination (\$38)
- **Prosthetics and hearing aids (\$23)**
- **Transitional Health Care (\$5)**

FY 2003 (annual cost \$54)*

- **VA/DoD joint initiatives (\$30)**
- **TRICARE PRIME Remote ADFM expansion (\$24)**

FY 2004 (annual cost \$400)*

- **NDA 2004 Guard/Reserve TRICARE benefit**

FY 2005 (initial cost \$248, ~\$800 annual future year cost)

- **NDA 2005 Guard/Reserve TRICARE benefit**

FY 2006 (annual cost \$2)

- **NDA 2006 Guard/Reserve TRICARE benefit**

FY 2007 (annual cost \$62)

- **Claims Processing Standardization (\$36M)**
- **Expanded Disease Management (\$26M)**

FY 2008 (annual cost \$11)

- TRICARE portion of Wounded Warrior Benefits

Source: OUSD/Health Affairs

**Estimated costs in FY 2004 millions of dollars*

All other costs in current year dollars

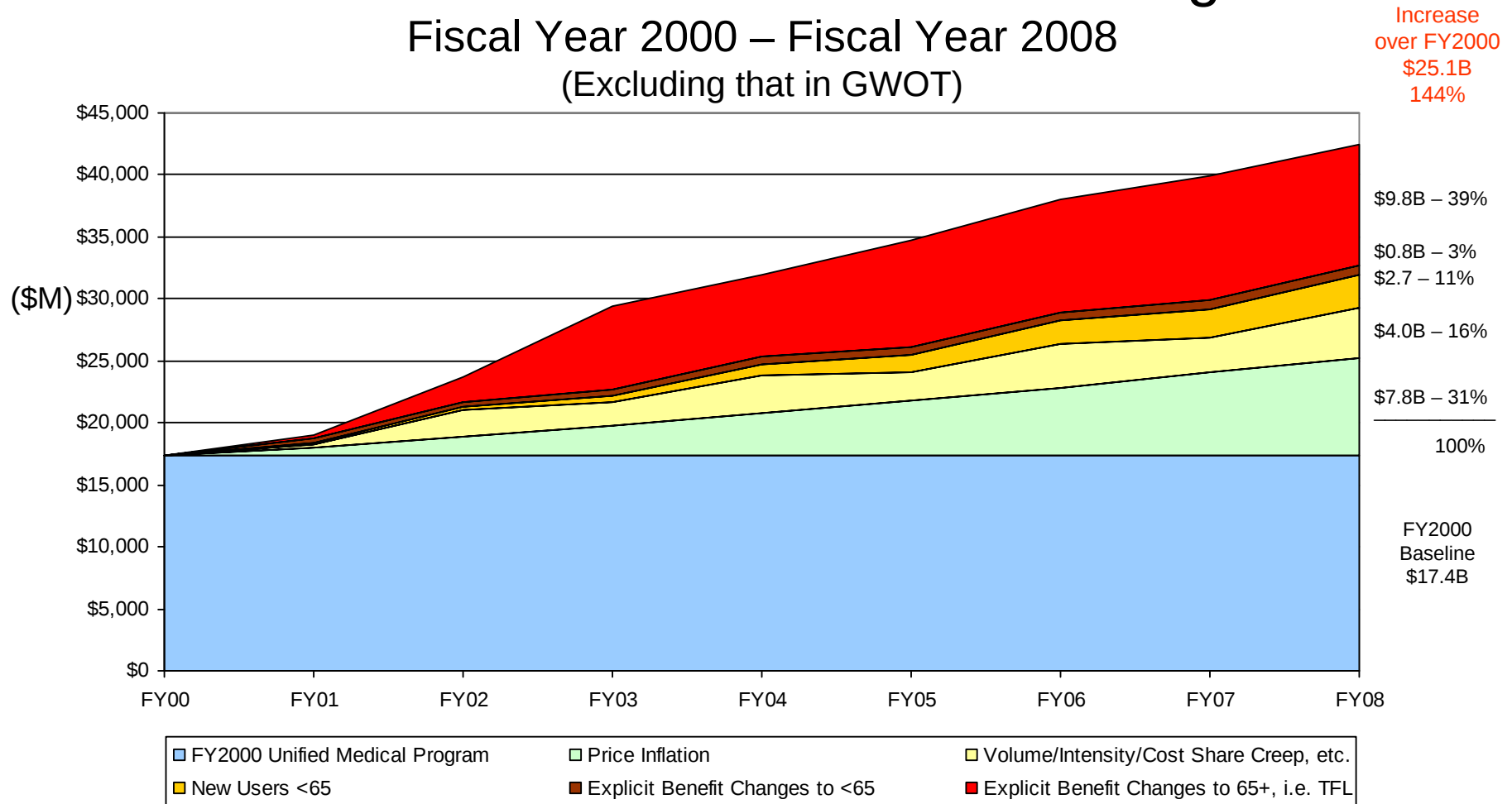
*Funded / **Unfunded “carve out”***



Growth in the Unified Medical Budget

Fiscal Year 2000 – Fiscal Year 2008

(Excluding that in GWOT)

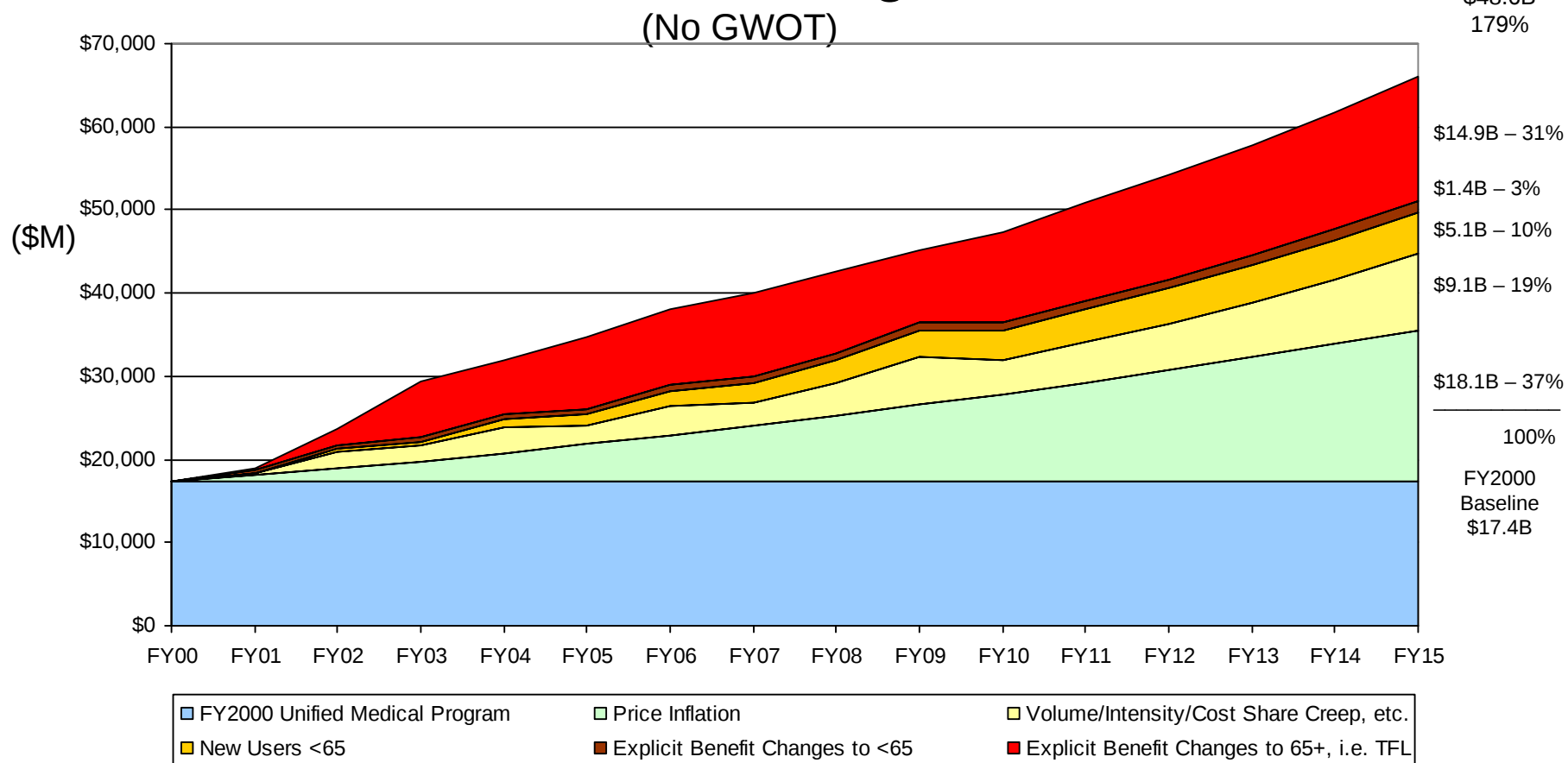


Source: OUSD/Health Affairs

Note: FY08 GWOT medical spending totaled \$1.137B



Projected Growth through FY 2015 in the Unified Medical Budget



Source: OUSD/Health Affairs



DISCUSSION:

- Overall Defense healthcare spending has grown 144% from FY 2000 to FY 2008 (\$17.4 billion to \$42.5 billion) (does not include GWOT and Supplementals)
 - Retiree spending has grown 39% from FY 2000 to FY 2008
 - 64.8% of healthcare expenditures in FY 2008 were for retirees
 - Pharmacy spending has been growing faster than overall Defense healthcare spending
 - DoD's unfunded liability for TRICARE-for-Life increased \$22 billion from FY 2006 to FY 2007 – it stood at \$488 billion in FY 2007
- \$11 billion of Defense healthcare spending in FY 2008 was the result of increases in benefits mandated by Congress since FY 2000
- Over the Future Years Defense Program (FYDP) Defense healthcare spending is forecasted to grow to around \$66 billion by FY 2015



RECOMMENDATIONS

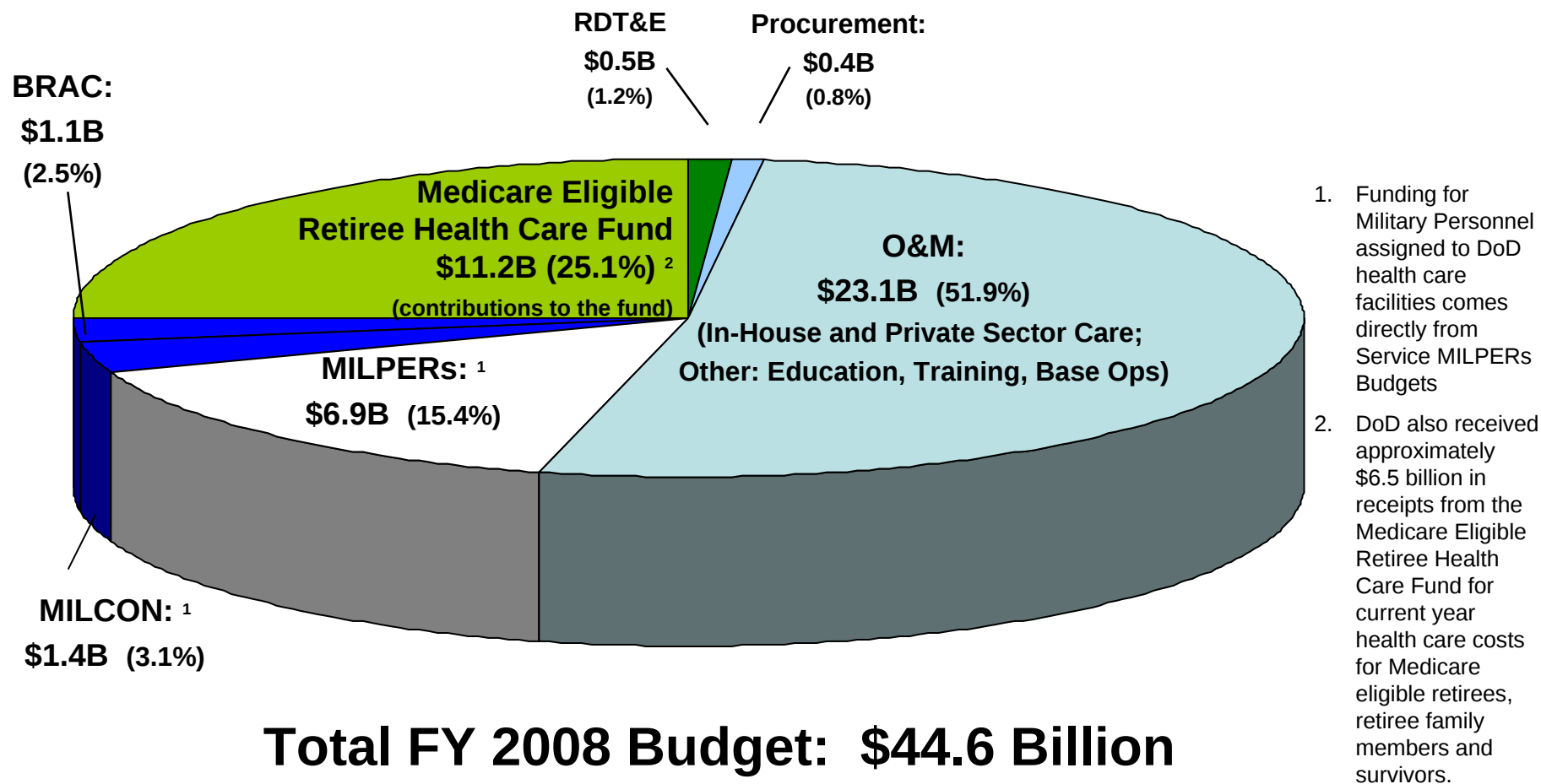
1. **Lead the Effort** – Only the Secretary can lead the Department to address this perilous threat
2. **Build a Team** – The Secretary must convene his senior military and civilian leadership to reduce Defense healthcare spending
 - This is an issue that can only be solved with the active support and engagement of the Chairman, Joint Chiefs of Staff and Service Chiefs
3. **Identify High Pay-Off Items** – The Secretary's team must focus on areas of highest potential savings
 - Especially in the areas of retiree spending and pharmacy
4. **Work with Congress** - Any changes to the trajectory of expenses will require the support of the Congress, as many of the fastest rising programs are mandated
 - Utilize a bi-partisan commission (similar to the National Bi-partisan Commission on Healthcare) to address DoD's rapidly increasing healthcare expenditures



BACKUP



Major Components of DoD Healthcare Budget (FY 2008)



Note: Includes FY08 \$1.137B GWOT and \$1B Supplemental



Cost Growth Drivers Impacting Defense Health Program

- **Increased benefits mandated by Congress:**

- 42% (\$10.6B) of FY00-08 growth
- Note: from FY00-08, 61% of the program's Cost Growth above inflation was due to these mandated benefits
- Includes TFL Benefit
- Assumes no increase in benefits after FY 2008

- **Increase in cost per *unit/visit*:**

- 37% of FY00-15 growth
- Labor and technology cost increases
- Private sector also increasing

- **Increase in *utilization/intensity* per user:**

- 19% of FY00-15 growth
- Advances in technology (ability to do more)
- Protocol changes
- Private sector also increasing

Note: GWOT supplemental spending is expected to be \$1.1B in FY09. Will cover TRICARE benefits for Guard and Reserve and their families; pre/post deployment assessments; medical backfill for reservists who are deployed; some Wounded Warrior and Active Duty casual care.

- **Increase in users:**

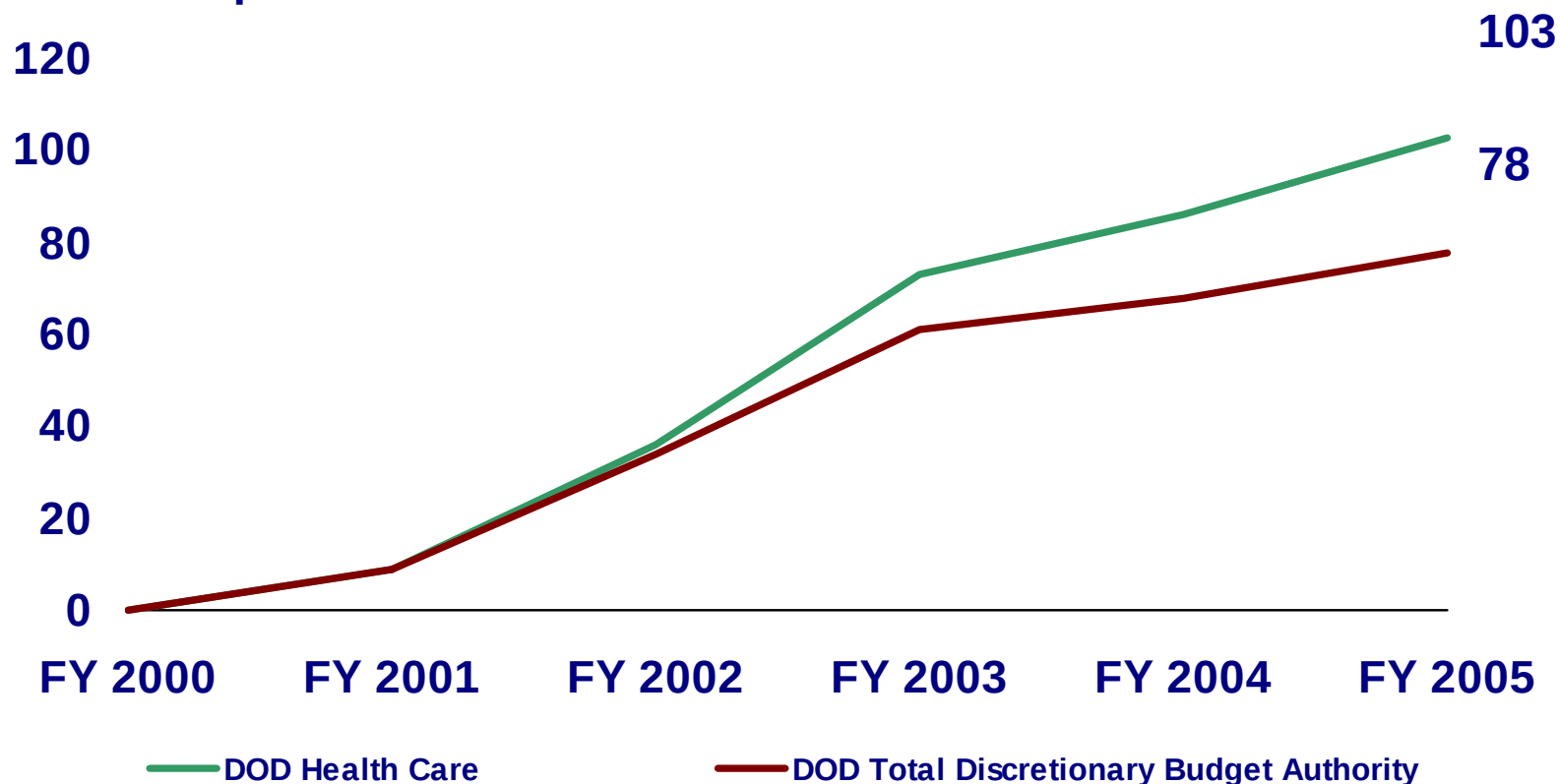
- 10% of FY00-15 growth
- Percent of non Medicare eligible retirees and dependents that use TRICARE is increasing
- Real costs to the beneficiaries are decreasing
- Beneficiary survey results: quality of and satisfaction with TRICARE health care provision are increasing
- Level of benefits is increasing

Source: OUSD/Health Affairs



DOD Health Care Spending has been Growing Faster than DOD's Discretionary Budget Authority

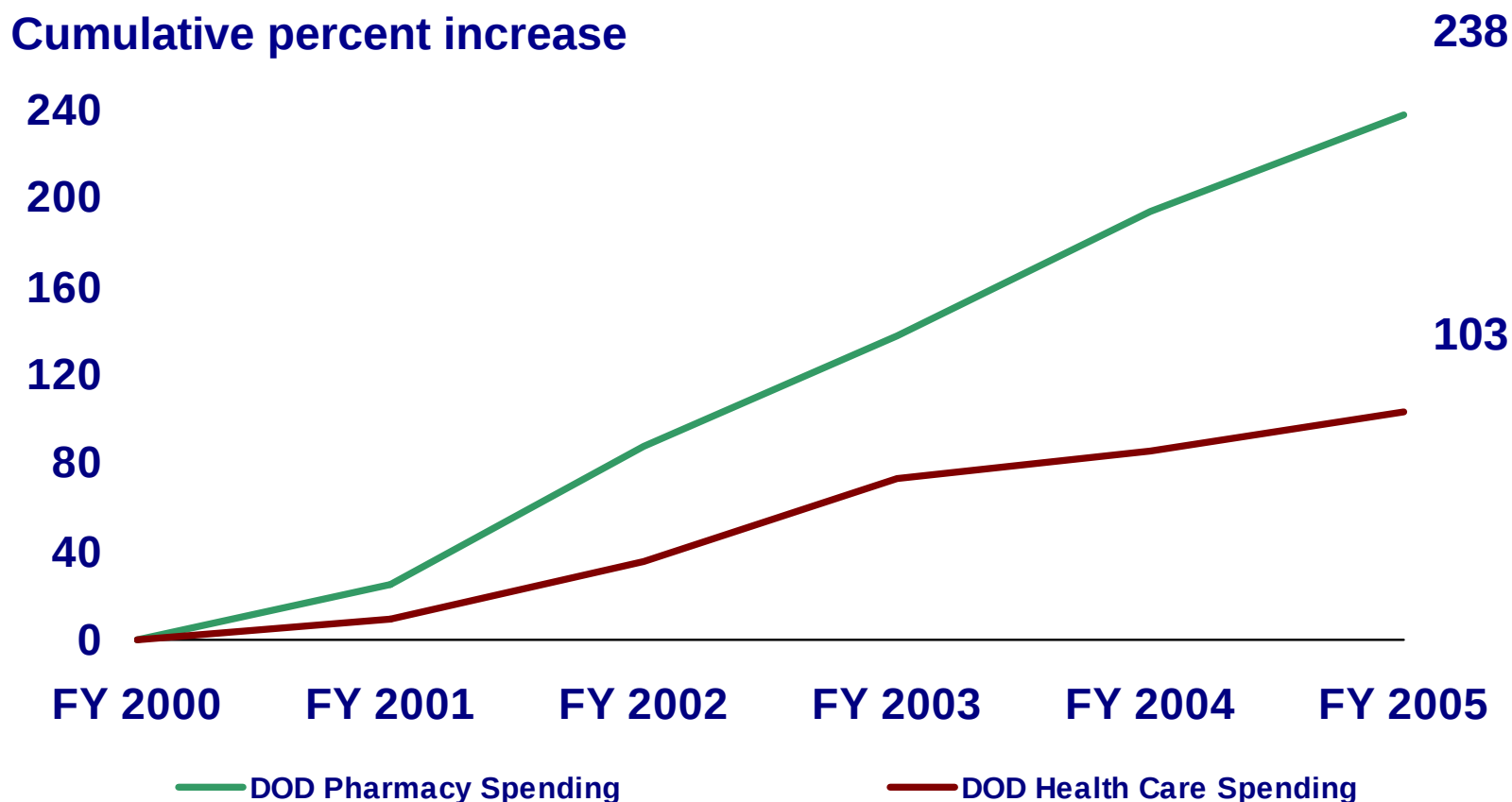
Cumulative percent increase



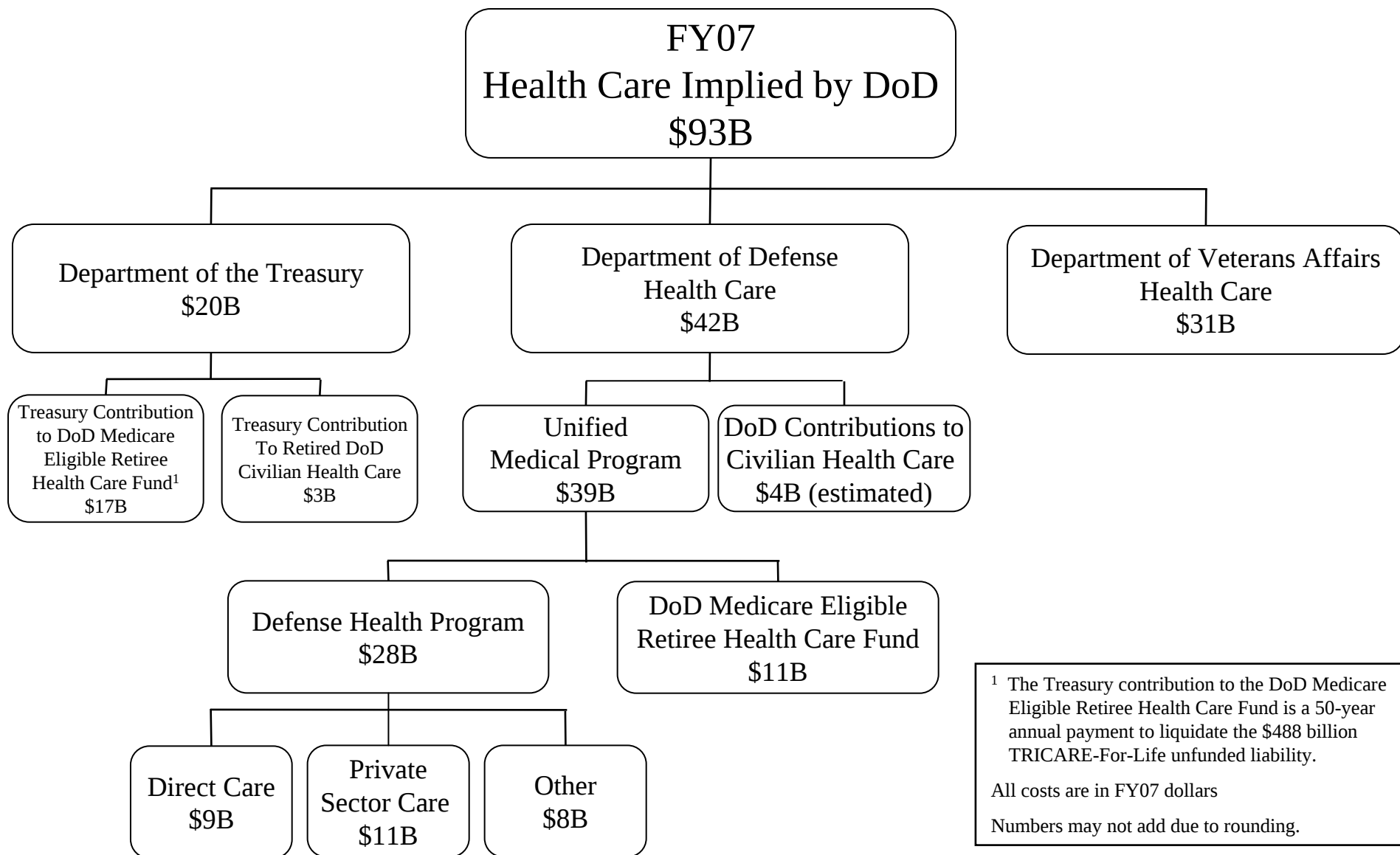
Source: GAO analysis of DOD data.



DOD Pharmacy Spending Grew Faster than Overall DOD Health Care Spending



Source: GAO analysis of DOD data.



Source: PA&E